

AUDITING PROCEDURES REPORT

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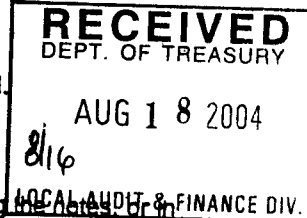
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Hesperia		County Oceana/Newaygo
Audit Date 3-31-2004	Opinion Date 6-15-2004	Date Accountant Report Submitted to State: August 10, 2004		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) Calvin Meeusen Company, C.P.A., PLLC			
Street Address 1014 S. Beacon Blvd.	City Grand Haven	State MI	ZIP 49417
Accountant Signature 			

VILLAGE OF HESPERIA
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2004

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VILLAGE OF HESPERIA

List of Principal Individuals

Jim Smith	President
Doris DeLong	Treasurer
Faye Ohrling	Clerk
Tom Hallowell	Trustee
Don Hills	Trustee
Molly Maynard	Trustee
Mari Ann McGahan	Trustee
William Semans	Trustee
Roger Wambaugh	Trustee

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

CALVIN D. MEEUSEN

CERTIFIED PUBLIC ACCOUNTANT

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348 WAVERLY RD., SUITE 126 • HOLLAND, MI 49424
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INDEPENDENT AUDITOR'S REPORT

Village of Hesperia
Council Members
Hesperia, Michigan 49421

I have audited the accompanying general purpose financial statements of the Village of Hesperia, Michigan, as of and for the year ended March 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Village of Hesperia's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and with standards prescribed by the state treasurer. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Hesperia, as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended, in conformity with accounting principles generally accepted in the United States of America and with applicable rules and regulations of any state department or agency.

In accordance with Government Auditing Standards, I have also issued my report dated June 15, 2004, on my consideration of the Village of Hesperia, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

My audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Village of Hesperia, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds and account groups taken as a whole.

Calvin Meeusen Company C.P.A. PLLC.

Calvin Meeusen Company, C.P.A., PLLC
Grand Haven, Michigan
June 15, 2004

VILLAGE OF HESPERIA

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

March 31, 2004

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>Special Revenue Funds</u>
ASSETS AND OTHER DEBITS		
Cash	\$ 1,783	\$ 8,801
Restricted Cash	-	-
Taxes Receivable	10,086	2,545
Due from Other Funds	69,104	94,004
Accounts Receivable	-	-
Due from Other Government Units	-	17,643
Property, Plant and Equipment	-	-
Less Accumulated Depreciation	-	-
Amount to be Provided for Retirement of General Long-Term Debt	<u>-</u>	<u>-</u>
Total Assets and Other Debits	<u>\$ 80,973</u>	<u>\$122,993</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS		
Liabilities		
Accounts Payable	\$ 6,122	\$ 381
Accrued Interest	-	-
Due to Other Funds	43,323	27,756
Bonds Payable	-	-
Notes Payable	-	-
Long-Term Debt	<u>-</u>	<u>-</u>
Total Liabilities	49,445	28,137
Fund Equity and Other Credits		
Investment in General Fixed Assets	-	-
Contributed Capital (net)	-	-
Retained Earnings-Reserved	-	-
Retained Earnings-Unreserved	-	-
Fund Balance-Unreserved	<u>31,528</u>	<u>94,856</u>
Total Fund Equity and Other Credits	<u>31,528</u>	<u>94,856</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$ 80,973</u>	<u>\$122,993</u>

The Notes to the Financial Statements are an integral part of this statement.

<u>Proprietary Fund Types</u>		<u>Account Groups</u>		
<u>Enterprise Funds</u>	<u>Internal Service Fund</u>	<u>General Long-Term Debt</u>	<u>General Fixed Assets</u>	<u>Total (Memo Only)</u>
\$ 25,295	\$ 5,779	\$ -	\$ -	\$ 41,658
297	-	-	-	297
-	-	-	-	12,631
18,734	59,065	-	-	240,907
51,527	-	-	-	51,527
-	-	-	-	17,643
4,528,156	198,064	-	267,666	4,993,886
(1,994,093)	(129,791)	-	-	(2,123,884)
-	-	125,281	-	125,281
<u>\$2,629,916</u>	<u>\$ 133,117</u>	<u>\$ 125,281</u>	<u>\$ 267,666</u>	<u>\$ 3,359,946</u>
\$ 2,952	\$ 1,036	\$ -	\$ -	\$ 10,491
9,619	-	-	-	9,619
161,828	8,000	-	-	240,907
515,000	-	-	-	515,000
8,280	27,383	-	-	35,663
-	-	125,281	-	125,281
697,679	36,419	125,281	-	936,961
-	-	-	267,666	267,666
1,667,187	-	-	-	1,667,187
5,097	-	-	-	5,097
259,953	96,698	-	-	356,651
-	-	-	-	126,384
<u>1,932,237</u>	<u>96,698</u>	<u>-</u>	<u>267,666</u>	<u>2,422,985</u>
<u>\$2,629,916</u>	<u>\$ 133,117</u>	<u>\$ 125,281</u>	<u>\$ 267,666</u>	<u>\$ 3,359,946</u>

VILLAGE OF HESPERIA

Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types For the Year Ended March 31, 2004

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total (Memo Only)</u>
Revenues			
Taxes	\$170,425	\$ 42,964	\$213,389
State Shared Revenue	110,038	90,771	200,809
Charges for Services	2,081	-	2,081
Interest and Rentals	4,444	-	4,444
Other Revenue	26,026	5,182	31,208
State and Local Grants	<u>-</u>	<u>126,250</u>	<u>126,250</u>
TOTAL REVENUES	313,014	265,167	578,181
Expenditures			
Legislative	1,609	-	1,609
General Government	120,117	-	120,117
Public Safety	111,113	-	111,113
Public Works	18,412	299,061	317,473
Recreation and Culture	34,269	-	34,269
Debt Service	8,308	-	8,308
Other Functions	<u>700</u>	<u>-</u>	<u>700</u>
TOTAL EXPENDITURES	<u>294,528</u>	<u>299,061</u>	<u>593,589</u>
Excess Revenues Over (Under) Expenditures	18,486	(33,894)	(15,408)
Other Financing Sources (Uses)			
Operating Transfer In	-	4,900	4,900
Operating Transfer Out	<u>-</u>	<u>(4,900)</u>	<u>(4,900)</u>
-	-	-	-
Excess Revenues Over (Under) Other Financing Sources (Uses)	18,486	(33,894)	(15,408)
Fund Balance - Beginning of Year	<u>13,042</u>	<u>128,751</u>	<u>141,793</u>
Fund Balance - End of Year	\$ <u>31,528</u>	\$ <u>94,857</u>	\$ <u>126,385</u>

The Notes to the Financial Statements are an integral part of this statement.

VILLAGE OF HESPERIA

Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General and Special Revenue Funds For the Year ended March 31, 2004

	General Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues			
Taxes		\$170,425	
State Shared Revenue		110,038	
Charges for Services		2,081	
Interest and Rentals		4,444	
Other Revenue		26,026	
State and Local Grants		<u>-</u>	
Total Revenues	323,968	313,014	(10,954)
Expenditures			
Legislative	1,609	1,609	-
General Government	121,051	120,117	934
Public Safety	131,364	111,113	20,251
Public Works	18,439	18,412	27
Recreation and Culture	35,282	34,269	1,013
Debt Service	8,350	8,308	42
Other Functions	<u>700</u>	<u>700</u>	<u>-</u>
Total Expenditures	<u>316,795</u>	<u>294,528</u>	<u>22,267</u>
Excess Revenues Over (Under) Expenditures	7,173	18,486	11,313
Other Financing Sources (Uses)			
Operating Transfer In (Out)	<u>-</u>	<u>-</u>	<u>-</u>
Excess Revenues Over (Under) Other Financing Sources (Uses)	7,173	18,486	11,313
Fund balance - Beginning of Year	<u>13,042</u>	<u>13,042</u>	<u>-</u>
Fund balance - End of Year	\$ <u>20,215</u>	\$ <u>31,528</u>	\$ <u>11,313</u>

The Notes to the Financial Statements are an integral part of this statement.

Special Revenue Funds			Total (Memo Only)		
Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
\$ -	\$ 42,964	\$ -	\$ -	\$213,389	\$ -
-	90,771	-	-	200,809	-
-	-	-	-	2,081	-
-	-	-	-	4,444	-
-	5,182	-	-	31,208	-
-	<u>126,250</u>	-	-	<u>126,250</u>	-
270,920	265,167	(5,753)	594,888	578,181	(16,707)
-	-	-	1,609	1,609	-
-	-	-	121,051	120,117	934
-	-	-	131,364	111,113	20,251
327,750	285,193	42,557	346,189	303,605	42,584
-	-	-	35,282	34,269	1,013
-	13,868	(13,868)	8,350	22,176	(13,826)
-	-	-	<u>700</u>	<u>700</u>	-
<u>327,750</u>	<u>299,061</u>	<u>28,689</u>	<u>644,545</u>	<u>593,589</u>	<u>50,956</u>
(56,830)	(33,894)	22,936	(49,657)	(15,408)	34,249
-	-	-	-	-	-
(56,830)	(33,894)	22,936	(49,657)	(15,408)	34,249
<u>128,751</u>	<u>128,751</u>	-	<u>141,793</u>	<u>141,793</u>	-
\$ <u>71,921</u>	\$ <u>94,857</u>	\$ <u>22,936</u>	\$ <u>92,136</u>	\$ <u>126,385</u>	\$ <u>34,249</u>

VILLAGE OF HESPERIA

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - All Proprietary Fund Types For the Year Ended March 31, 2004

	Enterprise Funds	Internal Service Fund	Total (Memo Only)
Operating Income			
Sales	\$ 252,074	\$ -	\$ 252,074
Rentals	-	72,191	72,191
Other Income	5,844	648	6,492
Total Operating Income	<u>257,918</u>	<u>72,839</u>	<u>330,757</u>
Operating Expenses			
Salaries and Wages	32,103	15,333	47,436
Fringe Benefits	10,031	3,431	13,462
Payroll Taxes	4,978	829	5,807
Supplies	2,270	7,267	9,537
Services	11,411	1,018	12,429
Professional Services	17,318	-	17,318
Insurance	22,106	3,584	25,690
Utilities	24,504	5,541	30,045
Repairs and Maintenance	43,877	9,911	53,788
Rentals	25,031	-	25,031
Printing & Publishing	626	-	626
Education and Training	155	-	155
Miscellaneous	-	2,225	2,225
Depreciation	93,836	15,879	109,715
Total Operating Expenses	<u>288,246</u>	<u>65,018</u>	<u>353,264</u>
Operating Income (Loss)	(30,328)	7,821	(22,507)
Nonoperating Income (Expenses)			
Interest Expense	(42,348)	(1,593)	(43,941)
Other Income	13,695	-	13,695
Total Nonoperating Income (Expenses)	<u>(28,653)</u>	<u>(1,593)</u>	<u>(30,246)</u>
Net Income (Loss)	(58,981)	6,228	(52,753)
Add Back Depreciation on Assets Acquired with Contributed Capital	61,106	-	61,106
Increase (Decrease) in Retained Earnings	2,125	6,228	8,353
Retained Earnings - Beginning of Year	<u>262,925</u>	<u>90,470</u>	<u>353,395</u>
Retained Earnings - End of Year	<u>\$ 265,050</u>	<u>\$ 96,698</u>	<u>\$ 361,748</u>

The Notes to the Financial Statements are an integral part of this statement.

VILLAGE OF HESPERIA

Combined Statement of Cash Flows - All Proprietary Fund Types For the Year Ended March 31, 2004

	Enterprise Funds	Internal Service Fund	Total (Memo Only)
Cash flows from operating activities:			
Operating Income (Loss)	\$ (58,981)	\$ 6,228	\$ (52,753)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	93,836	15,879	109,715
Accounts Receivable	21,529	-	21,529
Inventory	2,224	-	2,224
Accounts Payable	(3,858)	(1,960)	(5,818)
Due To Other Funds	26,647	-	26,647
Customer Deposits	(13,695)	-	(13,695)
Accrued Interest	9,619	-	9,619
	<u>136,302</u>	<u>13,919</u>	<u>150,221</u>
Net cash from operating activities	77,321	20,147	97,468
Cash flows from investing activities:			
Reduction of fixed assets (net)	1,661	2,225	3,886
Cash flows from capital and related financing activities:			
Retirement of Long-Term Debt	<u>(53,563)</u>	<u>(8,786)</u>	<u>(62,349)</u>
Net Increase in Cash	25,419	13,586	39,005
Cash - Beginning of Year	<u>173</u>	<u>(7,807)</u>	<u>(7,634)</u>
Cash - End of Year	<u>\$ 25,592</u>	<u>\$ 5,779</u>	<u>\$ 31,371</u>

The Notes to the Financial Statements are an integral part of this statement.

VILLAGE OF HESPERIA

Notes to the Financial Statements
March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Hesperia (Village) conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village:

1. The Reporting Entity

In accordance with the provisions of the Governmental Accounting Standard's Board Statement #14, "The Financial Reporting Entity," the financial statements of the Village contain all the funds and account groups that are controlled by, or dependent on, the Village, including all activities considered by state law to be a part of the operations of the Village. Control by, or dependence on, the Village was determined on the basis of appointment of governing authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Village, obligation of the Village to finance any deficits that may occur, receipt of significant subsidies from the Village, disposition of surplus funds, and scope of public service.

2. Basis of Presentation

The accounts of the Village are organized and operated on the basis of funds and account groups. A village is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained, consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

GOVERNMENTAL FUND TYPES

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, grants and other intergovernmental revenues.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than expendable trusts and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. (Major Street, Local Street, and Village Street Funds).

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued
March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

PROPRIETARY FUND TYPES

Enterprise Funds - Enterprise Funds are used to account for operations that (A) are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (B) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. (Sewer and Water Fund)

Internal Service Funds - Internal Service Funds account for the financing of services provided by one department to other departments of the Village on a cost reimbursement basis. The Equipment Pool is accounted for in this fund.

ACCOUNT GROUPS

General Fixed Assets Account Group - This account group presents the fixed assets of the local unit utilized in its general operations, other than those fixed assets recorded in proprietary and trust funds.

General Long-Term Debt Account Group - This account group presents the balance of general obligation long-term debt, which is not recorded in proprietary and trust funds.

3. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds. Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Fixed Assets and Long-Term Liabilities - Continued

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The account group is not a "fund". It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against its operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings	30 - 50 years
Machinery and equipment	5 - 10 years
Office equipment	5 years
Improvements other than building (water and sewer system)	30 - 67 years

4. Basis of Accounting

All governmental funds utilize the modified accrual basis of accounting. Under this method, revenues are recognized when received in cash except for those susceptible to accrual, which are recorded as receivables when measurable and available to finance current operations. Significant revenues susceptible to accrual include property taxes, expenditure reimbursement type grants, certain intergovernmental revenues and operating transfers. Expenditures are recorded when the liability is incurred, except for interest on long-term debt, which is recorded when paid.

The accrual basis of accounting is used by the proprietary funds.

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Village President submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to April 1, the budget is legally enacted through passage of a resolution.
- d. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with generally accepted accounting principles.
- e. Appropriations for the General Fund lapse at the end of the fiscal year.

Budgeted amounts are as originally adopted, or as amended by the Village Council as of March 31, 2004.

6. Encumbrances

The Village does not use encumbrance accounting.

7. Property Tax Recognition

Generally accepted accounting principles require revenues to be recognized in the accounting period in which they become measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Properties are assessed as of December 31, and the related property taxes become a lien on July 1 of the following year. These taxes are due on September 15th before they are added to the county tax delinquent rolls.

Collections of these taxes are accounted for in the General Fund and Village Streets Fund. Village property tax revenues are recognized in the period for which they are levied. The Village is permitted to levy taxes up to 15.50 mills per \$1,000 of assessed valuation for general governmental services. The tax rate that was levied to finance general government services for the year ended March 31, 2004 was 14.9296 mills.

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Cash and Cash Equivalents

The Village considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

10. Total Column on Combined Statements - Overview

The total column on the financial statements is captioned (Memo Only) to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE B - CASH DEPOSITS

1. Legal or Contractual Provision for Deposits and Investments

Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No.196, Public Acts of 1997, states that the Village, by resolution, may authorize investment of surplus funds as follows:

- A. In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- B. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with Subsection (2).
- C. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- D. In repurchase agreements consisting of instruments listed in A.
- E. In bankers' acceptances of United States banks.
- F. In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- G. In mutual funds composed of investment vehicles which are legal for direct investment by a public corporation with further details in the act.
- H. In obligations described above if purchased through an interlocal agreement under the urban cooperations act of 1967.

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE B - CASH DEPOSITS - CONTINUED

- I. In investment pools organized under the local government investment pool act of 1982 and 1985.

2. Types of Deposits and Investments

The Village maintains all of its cash deposits in one financial institution held in the Village's own name. Following is a schedule of cash insured by the Federal Deposit Insurance Corporation (FDIC) as indicated below.

<u>Fund</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
General	\$ 1,783	\$ 2,012
Major Street	25	28
Local Street	6,118	6,906
Village Street	2,658	3,000
Equipment Pool	5,779	6,523
Sewer	12,478	14,084
Water	12,817	14,467
Water Restricted	<u>297</u>	<u>335</u>
Total	<u>\$ 41,955</u>	<u>\$ 47,355</u>
FDIC Insured		\$ 47,355
Uninsured		<u>-</u>
Total		<u>\$ 47,355</u>

NOTE C - TAXES RECEIVABLE

The General Fund taxes receivable of \$10,086 represents real property taxes returned to the County as delinquent as March 31, 2004.

The Village Street Fund taxes receivable of \$2,545 represents real property taxes returned to the County as delinquent at March 31, 2004.

NOTE D - DUE FROM/TO OTHER FUNDS

The following are the interfund receivables/payables at year-end.

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued
March 31, 2004

NOTE D - DUE FROM/TO OTHER FUNDS - CONTINUED

<u>Water Fund</u>	
Due from Sewer Fund	\$ <u>18,734</u>
Due to Equipment Fund	\$ 21,555
Due to Village Streets	22,897
Due to General Fund	<u>14,450</u>
	\$ <u>58,902</u>
<u>Sewer Fund</u>	
Due to Water Fund	\$ 18,734
Due to General Fund	54,654
Due to Equipment Fund	4,968
Due to Village Streets	<u>24,570</u>
	\$ <u>102,926</u>
<u>General Fund</u>	
Due from Water Fund	\$ 14,450
Due from Sewer Fund	<u>54,654</u>
	\$ <u>69,104</u>
Due to Major Streets	\$ 35,749
Due to Equipment Fund	5,754
Due to Village Streets	<u>1,820</u>
	\$ <u>43,323</u>
<u>Major Streets</u>	
Due from General Fund	\$ 35,749
Due from Equipment Fund	8,000
Due from Village Streets	<u>968</u>
	\$ <u>44,717</u>
<u>Local Streets</u>	
Due to Equipment Fund	\$ <u>8,868</u>
<u>Village Streets</u>	
Due from Water Fund	\$ 22,897
Due from Sewer Funds	24,570
Due from General Fund	<u>1,820</u>
	\$ <u>49,287</u>

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE D - DUE FROM/TO OTHER FUNDS - CONTINUED

Village Streets

Due to Major Streets	\$ 968
Due to Equipment Fund	<u>17,920</u>
	<u>\$ 18,888</u>

Equipment Fund

Due from General Fund	\$ 5,754
Due from Local Streets	8,868
Due from Village Streets	17,920
Due from Water Fund	21,555
Due from Sewer Fund	<u>4,968</u>
	<u>\$ 59,065</u>

Due to Major Streets	<u>\$ 8,000</u>
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NOTE E - DEFINED CONTRIBUTION PENSION PLAN

The Village provides pension benefits to all of its appointed officers and full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Village contributes 7% of employees gross earnings and employees may make voluntary contributions of 1% to 10% of after-tax earnings. 100% of the benefits are vested immediately.

NOTE F - HEALTH INSURANCE

Health Insurance Premiums are paid as an employee benefit on behalf of all appointed officials and full-time employees through Municipal Benefits Services for Blue Cross/Blue Shield. In lieu of taking health insurance benefits, employees have the option to receive additional wages of \$100 per month.

NOTE G - CHANGES IN FIXED ASSETS

General Fixed Assets - General Fixed Assets have been purchased by the Village and recorded as an expenditure in the year purchased. These assets have been capitalized and recorded in the General Fixed Asset Group of Accounts. Following is a summary of changes in General Fixed Assets:

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE G - CHANGES IN FIXED ASSETS - CONTINUED

General Fixed Assets - Continued

	2003 - 2004 Activity			Total 3/31/04
	Total 3/31/03	Additions	Deletions	
General Government				
Town Hall	\$ 85,619	\$ -	\$ 4,961	\$ 80,658
Office Equipment	13,545	-	6,320	7,225
Police Department				
Police Department-Various	22,759	3,508	-	26,267
Vehicles	45,684	-	-	45,684
Equipment	23,854	-	8,238	15,616
Office Equipment	5,196	-	5,196	-
Parks Department				
Parks Department-Various	67,252	-	22,395	44,857
Pavilion	27,919	-	-	27,919
Major Streets				
Building	6,480	-	-	6,480
Local Streets				
Building	6,480	-	-	6,480
Village Streets				
Building	6,480	-	-	6,480
Total Assets	\$ <u>311,268</u>	\$ <u>3,508</u>	\$ <u>47,110</u>	\$ <u>267,666</u>

Proprietary Fund Fixed Assets - The following is a summary of proprietary fund fixed assets and accumulated depreciation at March 31, 2004:

	Total 3/31/03	Additions	Deletions	Total 3/31/04
<u>Enterprise Funds</u>				
Sewer Fund				
Land	\$ 54,155	\$ -	\$ -	\$ 54,155
Treatment Plant and				
Collection System	3,854,552	-	-	3,854,552
Machinery & Equip.	11,835	-	(201)	11,634

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE G - CHANGES IN FIXED ASSETS-CONTINUED

Proprietary Fund Fixed Assets - Continued

Total Sewer Fund				
Fixed Assets	3,920,542	-	(201)	3,920,341
Accumulated Depreciation	<u>(1,675,251)</u>	<u>(78,501)</u>	<u>-</u>	<u>(1,753,752)</u>
Sewer Fund Net Fixed Assets	<u>\$2,245,291</u>	<u>\$ (78,501)</u>	<u>\$ (201)</u>	<u>\$2,166,589</u>
Water Fund				
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Buildings and Structures	8,805	-	-	8,805
Water Distribution System	573,311	-	(711)	572,600
Machinery and Equip.	<u>23,191</u>	<u>-</u>	<u>(781)</u>	<u>22,410</u>
Total Water Fund Fixed Assets	609,307	-	(1,492)	607,815
Accumulated Depreciation	<u>(225,039)</u>	<u>(15,302)</u>	<u>-</u>	<u>(240,341)</u>
Water Fund Net Fixed Assets	<u>\$ 384,268</u>	<u>\$ (15,302)</u>	<u>\$ (1,492)</u>	<u>\$ 367,474</u>
Combined Enterprise Funds				
Total Sewer Fund Fixed Assets	\$3,920,542	\$ -	\$ (201)	\$3,920,341
Total Water Fund Fixed Assets	<u>609,307</u>	<u>-</u>	<u>(1,492)</u>	<u>607,815</u>
Total Enterprise Funds				
Fixed Assets	4,529,849	-	(1,693)	4,528,156
Accumulated Depreciation	<u>(1,900,290)</u>	<u>(93,803)</u>	<u>-</u>	<u>(1,994,093)</u>
Enterprise Funds Net Fixed Assets	<u>\$2,629,559</u>	<u>\$ (93,803)</u>	<u>\$ (1,693)</u>	<u>\$2,534,063</u>
Internal Service Fund				
Equipment Pool Fund				
Buildings and Structures	\$ 25,972	\$ -	\$ (972)	\$ 25,000
Machinery and Equip.	<u>267,753</u>	<u>-</u>	<u>(94,689)</u>	<u>173,064</u>
Total Equipment Pool Fund				
Fixed Assets	293,725	-	(95,661)	198,064
Accumulated Depreciation	<u>(207,348)</u>	<u>(15,879)</u>	<u>93,437</u>	<u>(129,790)</u>
Equipment Pool Fund				
Net Fixed Assets	<u>\$ 86,377</u>	<u>\$ (15,879)</u>	<u>\$ (2,224)</u>	<u>\$ 68,274</u>
Combined Proprietary Funds				
Total Enterprise Funds				
Fixed Assets	\$4,529,849	\$ -	\$ (1,693)	\$4,528,156
Total Internal Service				
Funds Fixed Assets	<u>293,725</u>	<u>-</u>	<u>(95,661)</u>	<u>198,064</u>

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE G - CHANGES IN FIXED ASSETS-CONTINUED

	2003 - 2004 Activity		
	Total 3/31/03	Additions	Total 3/31/04
Total Proprietary Funds			
Fixed Assets	4,823,574	-	4,726,220
Accumulated Depreciation	(2,107,638)	(109,682)	(2,123,883)
Proprietary Funds Net			
Fixed Assets	<u>\$2,715,936</u>	<u>\$(109,682)</u>	<u>\$2,602,337</u>

NOTE H - LONG-TERM DEBT

Summary - The long term debt includes a police vehicle note and a note to the intercounty drain project. Since the debt will not be retired with current operating resources, it is appropriately included in the General Long-Term Debt Group of Accounts. All items will be recorded as an expenditure of the year in which they were paid. The Annual principal and interest requirements to amortize these debts are as follows:

Year	Intercounty Drain Note	Police Vehicle Note
March 31, 2005	\$ 13,512	\$ 4,154
March 31, 2006	13,120	-
March 31, 2007	12,746	-
March 31, 2008	12,371	-
Subsequent Years	<u>126,791</u>	<u>-</u>
Total Requirements	178,540	4,154
Interest	<u>57,321</u>	<u>92</u>
Principal	<u>\$ 121,219</u>	<u>\$ 4,062</u>

Changes in Long-Term Debt - The following is a summary of changes in long-term debt for the Year ended March 31, 2004:

	Balance 3/31/03	Additions	Debt Retired	Balance 3/31/04
Intercounty Drain	\$ 128,349	\$ -	\$ 7,130	\$ 121,219
Police Vehicle	<u>11,829</u>	<u>-</u>	<u>7,767</u>	<u>4,062</u>
	<u>\$ 140,178</u>	<u>\$ -</u>	<u>\$ 14,897</u>	<u>\$ 125,281</u>

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE H - LONG-TERM DEBT - CONTINUED

Intercounty Drain Note - The intercounty drain project was completed in fiscal year 2002 and the subsequent note payable was established to pay for the Village's portion. (The other portion is being paid by taxpayers.) The note is payable to the Oceana County Drain Commission over a 20 year period with an interest rate of 5.25% per annum. The first payment was made January 22, 2002 and payments will be made annually until December 1, 2020. The note is backed by the full faith and credit of the Village.

Police Vehicle Note - This note is a capital lease with quarterly payments of \$2,077.02 due on February 20th, May 20th, and November 20th. The final payment is due August 20th, 2004. Interest is 6.05% per annum. The lease is secured by the vehicle.

The following is a summary of long-term debt outstanding for the year for all proprietary fund types.

Statement of Changes in Long-Term Debt

	Balance 3/31/03	New Issues	Debt Retired	Balance 3/31/04
<u>Enterprise Funds</u>				
1978 Sewer System	\$ 375,000	\$ -	\$ 25,000	\$ 350,000
2000 Sewer Note	8,422	-	4,282	4,140
1990 Water Tower	185,000	-	20,000	165,000
2000 Water Note	<u>8,421</u>	<u>-</u>	<u>4,281</u>	<u>4,140</u>
Total Enterprise Funds	576,843	-	53,563	523,280
<u>Internal Service</u>				
2000 Equipment Pool - Note Payable	<u>36,169</u>	<u>-</u>	<u>8,786</u>	<u>27,383</u>
Total Proprietary Fund Types	\$ <u>613,012</u>	\$ <u>-</u>	\$ <u>62,349</u>	\$ <u>550,663</u>

The Village also has long-term obligations primarily resulting from the financing of a sanitary sewer system and water tower. The bond descriptions, summary of transactions, amortization schedule and the bond covenants are as follows.

A. 1978 Sewer System Reserve Bond

At a special meeting held September 19, 1977, the Village Council entered into a contract with the County of Newaygo relating to the acquisition, construction, operation and financing of a sanitary sewer system.

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE H - LONG-TERM DEBT - CONTINUED

Revenue Bond Issue of \$750,000 - total contractual payments are established in the amount required to pay the principal and interest on the bonds of this issue when due. The annual principal payments of \$25,000 are due January 1 each year with the final payment due in the year 2018. Interest payments at the rate of 5% are due semiannually on January 1 and July 1.

B. Water Tower Bonds - 1990

On June 28, 1990, the Village sold \$335,000 in revenue bonds through the Michigan Bond Authority for the purpose of constructing a water tower. Principal payments are due November 1 of each year varying from \$20,000 to \$35,000 with the final payment due in the year 2009. Interest payments are due semiannually at varying interest rates of 7.10% to 7.20% and are due May 1 and November 1.

C. 2000 Water/Sewer Note

On March 3, 2000 the Village borrowed \$40,392 from Shelby State Bank to purchase new meters for the water and sewer system. Payments are \$773.97 including interest and principal per month payable in 60 installments commencing April 3, 2000 and ending March 3, 2005. The interest rate is 5.630% per annum. The water and sewer funds will each pay one-half of the payment.

D. 2000 Equipment Fund Note

The Village borrowed \$61,292 on January 17, 2000 from Shelby State Bank to purchase two 1990 International dump trucks, which are pledged as collateral. Payments are \$864.86 per month including principal and interest for 84 months. The first payment is due February 17, 2000 and the last payment is due January 12, 2007. Interest is 4.950% per annum.

E. Summaries of maturities of long-term debt:

	<u>Sewer Fund Bond Issue</u>	<u>Water Fund Bond Issue</u>	<u>Enterprise Funds Bond Issue</u>
For the Years Ended:			
March 31, 2005	\$ 42,500	\$ 31,835	\$ 74,335
March 31, 2006	41,250	35,415	76,665
March 31, 2007	40,000	33,640	73,640
March 31, 2008	38,750	36,840	74,425
Subsequent Years	<u>318,750</u>	<u>72,200</u>	<u>392,115</u>
Total Requirements	481,250	209,930	691,180
Interest	<u>131,250</u>	<u>44,930</u>	<u>176,180</u>
Principal	\$ <u>350,000</u>	\$ <u>165,000</u>	\$ <u>515,000</u>

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE H - LONG-TERM DEBT-CONTINUED

	<u>Water/Sewer Note Payable</u>	<u>Internal Service Note Payable</u>
For the Years Ended:		
March 31, 2005	\$ 9,288	\$ 10,378
March 31, 2006	-	10,378
March 31, 2007	<u>-</u>	<u>8,649</u>
Total Requirements	9,288	29,405
Interest	<u>1,008</u>	<u>2,022</u>
Principal	\$ <u>8,280</u>	\$ <u>27,383</u>

NOTE I - CONTRIBUTED CAPITAL

During the year, contributed capital decreased by the following amount:

Depreciation (portion for assets purchased with contributed capital)	\$ 61,106
Contributed Capital, April 1	<u>1,728,283</u>
Contributed Capital, March 31	<u>\$1,667,177</u>

NOTE J - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Village carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonable estimated. There has not been any uncovered or unreimbursed claims in any of the past three years.

NOTE K - CASH FLOWS

Cash paid for interest by the Village for the Proprietary Funds was \$32,729. Additional interest of \$9,619 was accrued at fiscal year end for a total of \$42,348 in interest expense.

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE L - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

The General Fund and Special Revenue Fund Types are under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results.

In the body of the financial statements, the Village's actual expenditures for the budgetary funds have been shown on a line item basis. The budget was adopted on the activity basis.

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (ML 141.42), provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the year, over expenditures occurred as listed below:

<u>Activity</u>	<u>Budget</u>	<u>Expenditures</u>	<u>Variance</u>
<u>General Fund</u>			
General Government	\$47,421	\$47,796	\$ 375

NOTE M - RESTRICTED RETAINED EARNINGS AND FUND BALANCE

The Village Council has restricted \$5,097 of the Water Fund's Retained Earnings due to ordinance provisions.

NOTE N - SEGMENT INFORMATION - ENTERPRISE FUNDS

The following segment information is shown for water and sewer service provided by the Village.

	<u>Sewer</u>	<u>Water</u>
Operating Income before Depreciation	\$ 50,413	\$ 13,095
Depreciation	78,501	15,335
Operating Income (Loss)	(28,088)	(2,240)
Net Income (Loss)	(51,887)	(7,094)
Property, Plant and Equipment Deletions	(201)	(1,492)
Net Working Capital	(62,589)	(15,957)
Total Assets	2,213,670	416,246
Bonds and Long-Term Liabilities	354,140	169,140
Total Equity	\$1,749,860	\$ 182,377

VILLAGE OF HESPERIA

Notes to the Financial Statements - Continued March 31, 2004

NOTE O - ENDOWMENT FUND

The Fremont Area Community Foundation holds a designated endowment fund which has been reserved for the use of the Village of Hesperia. The Fund is not available for general operating purposes but is intended to fund charitable community projects and programs as deemed appropriate by the Village Council and the Community Foundation Board of Trustees. As of March 31, 2004, the fair market value of this endowment fund was \$32,328.

VILLAGE OF HESPERIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund Fiscal Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues			
Property Taxes		\$ 170,425	
State Share Revenue		110,038	
Charge for Services		2,081	
Interest		25	
Rents		4,419	
Refunds and Reimbursements		17,665	
Miscellaneous and Fines		<u>8,361</u>	
Total Revenues	\$ 323,968	\$ 313,014	\$ (10,954)
Expenditures			
Legislative			
Elections	1,609	1,609	-
General Government			
General Government			
Wages		7,859	
Fringe Benefits		175	
Payroll Taxes		332	
Supplies		5,792	
Services		7,082	
Printing and Publishing		1,314	
Insurance		7,587	
Utilities		2,287	
Education and Training		518	
Miscellaneous		446	
Repairs and Maintenance		<u>14,404</u>	
	47,421	47,796	(375)
Clerk			
Salaries		27,863	
Fringe Benefits		2,201	
Payroll Taxes		<u>1,660</u>	
	32,179	31,724	455

VILLAGE OF HESPERIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund - Continued Fiscal Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Treasurer			
Salaries	\$	\$ 24,287	\$
Fringe Benefits		6,206	
Payroll Taxes		<u>1,328</u>	
	32,204	31,821	383
Buildings and Grounds			
Salaries		1,982	
Fringe Benefits		368	
Payroll Taxes		369	
Supplies		279	
Repairs and Maintenance		904	
Insurance		1,592	
Utilities		3,101	
Services		175	
Rentals		<u>6</u>	
	<u>9,247</u>	<u>8,776</u>	<u>471</u>
Total General Government	121,051	120,117	934
Public Safety			
Police Department			
Salaries		68,627	
Fringe Benefits		10,347	
Payroll Taxes		3,651	
Supplies		7,648	
Services		2,788	
Transportation		268	
Printing & Publishing		50	
Insurance/Bonds		7,711	
Utilities		4,600	
Repairs		4,613	
Education and Training		310	
Rentals		<u>500</u>	
Total Public Safety	131,364	111,113	20,251

VILLAGE OF HESPERIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund - Continued Fiscal Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Public Works			
Street Lighting			
Utilities	\$ 18,439	\$ 18,412	\$ 27
Recreation and Culture			
Crossing Guards			
Salaries		6,327	
Fringe Benefits		79	
Payroll Taxes		332	
	\$ 6,738	\$ 6,738	\$ -
Park			
Wages		6,956	
Fringe Benefits		2,790	
Payroll Taxes		664	
Supplies		2,032	
Services		1,458	
Insurance/Bonds		1,192	
Utilities		1,005	
Repairs and Maintenance		1,615	
Rentals		9,819	
	<u>28,544</u>	<u>27,531</u>	<u>1,013</u>
Total Recreation and Culture	<u>35,282</u>	<u>34,269</u>	<u>1,013</u>
Debt Service			
Principal		7,766	
Interest		542	
	8,350	8,308	42
Other Functions			
Other Activities - Miscellaneous	<u>700</u>	<u>700</u>	<u>-</u>
Total Expenditures	<u>316,795</u>	<u>294,528</u>	<u>22,267</u>
Excess Revenues Over (Under) Expenditures	7,173	18,486	11,313
Fund Balance - Beginning of Year	<u>13,042</u>	<u>13,042</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 20,215</u>	<u>\$ 31,528</u>	<u>\$ 11,313</u>

VILLAGE OF HESPERIA

Combining Balance Sheet Special Revenue Funds March 31, 2004

	<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Village Street Fund</u>	<u>Totals</u>
ASSETS				
Cash	\$ 25	\$ 6,118	\$ 2,658	\$ 8,801
Due From Other Funds	44,717	-	49,287	94,004
Due From Other Governmental Units	12,318	5,325	-	17,643
Taxes Receivable	<u>-</u>	<u>-</u>	<u>2,545</u>	<u>2,545</u>
Total Assets	<u>\$ 57,060</u>	<u>\$ 11,443</u>	<u>\$ 54,490</u>	<u>\$122,993</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Accounts Payable	\$ 344	\$ 37	\$ -	\$ 381
Due to Other Funds	<u>-</u>	<u>8,868</u>	<u>18,888</u>	<u>27,756</u>
Total Liabilities	344	8,905	18,888	28,137
Fund Balance	<u>56,716</u>	<u>2,538</u>	<u>35,602</u>	<u>94,856</u>
Total Liabilities and Fund Balance	<u>\$ 57,060</u>	<u>\$ 11,443</u>	<u>\$ 54,490</u>	<u>\$ 122,993</u>

VILLAGE OF HESPERIA
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balance - Special Revenue Funds
For the Fiscal Year Ended March 31, 2004

	Major Street Fund	Local Street Fund	Village Street Fund	Total
Revenues				
Property Taxes	\$ -	\$ -	\$ 42,964	\$ 42,964
State Shared Revenue	63,424	27,347	-	90,771
State and Local Grants	126,250	-	-	126,250
Other Revenue	<u>5,182</u>	<u>-</u>	<u>-</u>	<u>5,182</u>
Total Revenues	194,856	27,347	42,964	265,167
Expenditures				
Salaries and Wages	12,023	2,836	7,969	22,828
Fringe Benefits	2,221	2,221	2,221	6,663
Payroll Taxes	830	830	830	2,490
Supplies	3,825	4,135	1,605	9,565
Prof. & Contracted Services	84,151	406	406	84,963
Public Utilities	804	382	1,269	2,455
Rentals	22,176	2,231	12,927	37,334
Repairs and Maintenance	2,390	4,120	1,066	7,576
Capital Outlay	111,319	-	-	111,319
Debt Service				
Principal	3,565	3,565	-	7,130
Interest	<u>3,369</u>	<u>3,369</u>	<u>-</u>	<u>6,738</u>
Total Expenditures	<u>246,673</u>	<u>24,095</u>	<u>28,293</u>	<u>299,061</u>
Excess Revenues Over (Under) Expenditures	(51,817)	3,252	14,671	(33,894)
Other Financial Sources (Uses)				
Operating Transfer In	4,900	-	-	4,900
Operating Transfer Out	<u>-</u>	<u>(4,900)</u>	<u>-</u>	<u>(4,900)</u>
	4,900	(4,900)	-	-
Excess Revenue Over (Under) Other Financing Sources (Uses)	(46,917)	(1,648)	14,671	(33,894)
Fund Balance - Beginning of Year	<u>103,633</u>	<u>4,186</u>	<u>20,932</u>	<u>128,751</u>
Fund Balance - End of Year	\$ <u>56,716</u>	\$ <u>2,538</u>	\$ <u>35,603</u>	\$ <u>94,857</u>

VILLAGE OF HESPERIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Major Street Fund For the Fiscal Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues			
State Shared Revenue		\$ 63,424	
State and Local Grants		126,250	
Street Sweeping		3,470	
Snow Removal		<u>1,712</u>	
	\$ 191,402	\$194,856	\$ 3,454
Expenditures			
Salaries and Wages		12,023	
Fringe Benefits		2,221	
Payroll Taxes		830	
Supplies		3,825	
Prof. and Contracted Services		84,151	
Utilities		804	
Rentals		22,176	
Repairs and Maintenance		2,390	
Capital Outlay		111,319	
Debt Service			
Principal		3,565	
Interest		<u>3,369</u>	
Total Expenditures	<u>267,676</u>	<u>246,673</u>	<u>21,003</u>
Excess Revenues Over (Under) Expenditures	(76,274)	(51,817)	24,457
Other Financing Sources (Uses)			
Operating Transfer In	<u>-</u>	<u>4,900</u>	<u>4,900</u>
Excess Revenues Over (Under) Other Financing Sources (Uses)	(76,274)	(46,917)	29,357
Fund Balance - Beginning of Year	<u>103,633</u>	<u>103,633</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 27,359</u>	<u>\$ 56,716</u>	<u>\$ 29,357</u>

VILLAGE OF HESPERIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Local Street Fund For the Fiscal Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues			
State Shared Revenue		\$ <u>27,347</u>	
	\$ 25,543	\$ 27,347	\$ 1,804
Expenditures			
Salaries and Wages		2,836	
Fringe Benefits		2,221	
Payroll Taxes		830	
Supplies		4,135	
Prof. and Contracted Services		406	
Utilities		382	
Rentals		2,231	
Repairs and Maintenance		4,120	
Debt Service			
Principal		3,565	
Interest		<u>3,369</u>	
Total Expenditures	<u>31,394</u>	<u>24,095</u>	<u>7,299</u>
Excess Revenues Over (Under) Expenditures	(5,851)	3,252	9,103
Other Financing Sources (Uses)			
Operating Transfer Out	<u>-</u>	<u>(4,900)</u>	<u>(4,900)</u>
Excess Revenues Over (Under) Financing Sources (Uses)	(5,851)	(1,648)	4,203
Fund Balance - Beginning of Year	<u>4,186</u>	<u>4,186</u>	<u>-</u>
Fund Balance - End of Year	\$ <u>(1,665)</u>	\$ <u>2,538</u>	\$ <u>4,203</u>

VILLAGE OF HESPERIA

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Village Street Fund For the Fiscal Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues			
Property Taxes		\$ <u>42,964</u>	
	\$ 53,975	\$ 42,964	\$ (11,011)
Expenditures			
Salaries and Wages		7,969	
Fringe Benefits		2,221	
Payroll Taxes		830	
Supplies		1,605	
Prof. and Contracted Services		406	
Utilities		1,269	
Rentals		12,927	
Repairs and Maintenance		<u>1,066</u>	
Total Expenditures	<u>28,680</u>	<u>28,293</u>	<u>387</u>
Excess Revenues Over (Under) Expenditures	25,295	14,671	(10,624)
Fund Balance - Beginning of Year	<u>20,932</u>	<u>20,932</u>	<u>-</u>
Fund Balance - End of Year	\$ <u>46,227</u>	\$ <u>35,603</u>	\$ <u>(10,624)</u>

VILLAGE OF HESPERIA

Combining Balance Sheet - All Enterprise Fund Types March 31, 2004

	Sewer Fund	Water Fund	Total (Memo Only)
ASSETS			
Cash	\$ 12,478	\$ 12,817	\$ 25,295
Restricted Cash	-	297	297
Accounts Receivable	34,603	16,924	51,527
Due from Other Funds	-	18,734	18,734
Property, Plant and Equipment	3,920,341	607,815	4,528,156
Accumulated Depreciation	<u>(1,753,752)</u>	<u>(240,341)</u>	<u>(1,994,093)</u>
Total Assets	<u>\$2,213,670</u>	<u>\$ 416,246</u>	<u>\$ 2,629,916</u>
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts Payable	\$ 2,056	\$ 896	\$ 2,952
Due to Other Funds	102,926	58,902	161,828
Accrued Interest	4,688	4,931	9,619
Bonds Payable	350,000	165,000	515,000
Notes Payable	<u>4,140</u>	<u>4,140</u>	<u>8,280</u>
Total Liabilities	463,810	233,869	697,679
Fund Equity			
Contributed Capital	1,667,187	-	1,667,187
Retained Earnings - Reserved	-	5,097	5,097
Retained Earnings - Unreserved	<u>82,673</u>	<u>177,280</u>	<u>259,953</u>
Total Fund Equity	<u>1,749,860</u>	<u>182,377</u>	<u>1,932,237</u>
Total Liabilities and Fund Equity	<u>\$2,213,670</u>	<u>\$ 416,246</u>	<u>\$ 2,629,916</u>

VILLAGE OF HESPERIA

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings - All Enterprise Fund Types For the Year Ended March 31, 2004

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total (Memo Only)</u>
Operating Income			
Sales	\$ 142,681	\$ 109,393	\$252,074
Connection Fees	<u>2,844</u>	<u>3,000</u>	<u>5,844</u>
Total Operating Income	145,525	112,393	257,918
Operating Expenses			
Salaries and Wages	12,164	19,939	32,103
Fringe Benefits	5,194	4,837	10,031
Payroll Taxes	2,489	2,489	4,978
Operating Supplies	1,037	1,233	2,270
Services and Charges	7,814	3,597	11,411
Professional Services	15,545	1,773	17,318
Insurance	12,150	9,956	22,106
Utilities	15,573	8,931	24,504
Repairs and Maintenance	13,215	30,662	43,877
Education and Training	-	155	155
Rentals	9,931	15,100	25,031
Printing & Publishing	-	626	626
Depreciation	<u>78,501</u>	<u>15,335</u>	<u>93,836</u>
Total Operating Expenses	<u>173,613</u>	<u>114,633</u>	<u>288,246</u>
Operating Income (Loss)	(28,088)	(2,240)	(30,328)
Nonoperating Income (Expenses)			
Other Income	-	13,695	13,695
Interest Expense	<u>(23,799)</u>	<u>(18,549)</u>	<u>(42,348)</u>
Total Nonoperating Income (Expenses)	<u>(23,799)</u>	<u>(4,854)</u>	<u>(28,653)</u>
Net Income (Loss)	(51,887)	(7,094)	(58,981)
Add Back Depreciation on Assets Acquired with Contributed Capital	<u>61,106</u>	<u>-</u>	<u>61,106</u>
Increase (Decrease) in Retained Earnings	9,219	(7,094)	2,125
Retained Earnings - Beginning of Year	<u>73,454</u>	<u>189,471</u>	<u>262,925</u>
Retained Earnings - End of Year	<u>\$ 82,673</u>	<u>\$ 182,377</u>	<u>\$265,050</u>

VILLAGE OF HESPERIA

Combining Statement of Cash Flows - All Enterprise Fund Types For the Year Ended March 31, 2004

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total (Memo Only)</u>
Cash flows from operating activities:			
Operating Income (Loss)	\$ (51,887)	\$ (7,094)	\$(58,981)
Adjustments to reconcile net income to net cash provided for operating activities			
Depreciation	78,501	15,335	93,836
Accounts Receivable	5,522	16,007	21,529
Inventory	378	1,846	2,224
Accounts Payable	(3,177)	(681)	(3,858)
Due to Other Funds	7,500	19,147	26,647
Customer Deposits	-	(13,695)	(13,695)
Accrued Interest	4,688	4,931	9,619
	<u>93,412</u>	<u>42,890</u>	<u>136,302</u>
Net cash from operating activities	41,525	35,796	77,321
Cash Flows from investing activities			
Reduction of Fixed Assets (net)	<u>201</u>	<u>1,460</u>	<u>1,661</u>
Net cash from investing activities	201	1,460	1,661
Cash flows from financing activities;			
Retirement of Long-Term Debt	<u>(29,282)</u>	<u>(24,281)</u>	<u>(53,563)</u>
Net cash used in financing activities	<u>(29,282)</u>	<u>(24,281)</u>	<u>(53,563)</u>
Net Increase (Decrease) in Cash	12,444	12,975	25,419
Cash - Beginning of Year	<u>34</u>	<u>139</u>	<u>173</u>
Cash - End of Year	<u>\$ 12,478</u>	<u>\$ 13,114</u>	<u>\$ 25,592</u>

VILLAGE OF HESPERIA

Statement of Revenues, Expenses, and Changes in Retained Earnings - Budget and Actual - Sewer Fund For the Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Operating Income			
Sales		\$142,681	
Connecting Fees		<u>2,844</u>	
Total Operating Income	\$130,986	145,525	\$ 14,539
Operating Expenses			
Salaries and Wages		12,164	
Fringe Benefits		5,194	
Payroll Taxes		2,489	
Operating Supplies		1,037	
Services and Charges		7,814	
Professional Services		15,545	
Insurance		12,150	
Utilities		15,573	
Repairs and Maintenance		13,215	
Rentals		9,931	
Transportation		-	
Depreciation		<u>78,501</u>	
Total Operating Expenses	<u>143,453</u>	<u>173,613</u>	<u>(30,160)</u>
Operating Income (Loss)	(12,467)	(28,088)	(15,621)
Nonoperating Income (Expenses)			
Interest Expense		<u>(23,799)</u>	
Total Nonoperating Income (Expenses)	<u>-</u>	<u>(23,799)</u>	<u>(23,799)</u>
Net Income (Loss)	(12,467)	(51,887)	(39,420)
Add Back Depreciation on Assets Acquired with Contributed Capital		<u>61,106</u>	
Increase (Decrease) in Retained Earnings	(12,467)	9,219	21,686
Retained Earnings - Beginning of Year	<u>73,454</u>	<u>73,454</u>	<u>-</u>
Retained Earnings - End of Year	<u>\$ 60,987</u>	<u>\$ 82,673</u>	<u>\$ 21,686</u>

VILLAGE OF HESPERIA

Statement of Revenues, Expenses, and Changes in Retained Earnings - Budget and Actual - Water Fund For the Year Ended March 31, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Operating Income			
Sales		\$109,393	
Connecting Fees		<u>3,000</u>	
Total Operating Income	\$111,874	112,393	\$ 519
Operating Expenses			
Salaries and Wages		19,939	
Fringe Benefits		4,837	
Payroll Taxes		2,489	
Operating Supplies		1,233	
Services and Charges		3,597	
Professional Services		1,773	
Insurance		9,956	
Utilities		8,931	
Repairs and Maintenance		30,662	
Rentals		15,100	
Education and Training		155	
Printing and Publishing		626	
Depreciation		<u>15,335</u>	
Total Operating Expenses	<u>124,817</u>	<u>114,633</u>	<u>10,184</u>
Operating Income (Loss)	(12,943)	(2,240)	10,703
Nonoperating Income (Expenses)			
Other Income		13,695	
Interest Expense		<u>(18,549)</u>	
Total Nonoperating Income (Expenses)	<u>-</u>	<u>(4,854)</u>	<u>(4,854)</u>
Net Income (Loss)	(12,943)	(7,094)	5,849
Retained Earnings - Beginning of Year	<u>189,471</u>	<u>189,471</u>	<u>-</u>
Retained Earnings - End of Year	<u>\$176,528</u>	<u>\$182,377</u>	<u>\$ 5,849</u>

CALVIN MEEUSEN COMPANY, C.P.A., PLLC

CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT

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Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards*

To the Village Council
Village of Hesperia
Hesperia, Michigan

I have audited the general purpose financial statements of Village of Hesperia, Michigan, as of and for the year ended March 31, 2004 and have issued my report thereon dated June 15, 2004. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Hesperia's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, I considered the Village of Hesperia's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal controls over financial reporting that, in my judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-1 and 04-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being

audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal controls over financial reporting that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, of the reportable conditions described above, I believe that items 04-1 and 04-2 are not material weaknesses.

This report is intended solely for the information and use of management, others within the organization, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Calvin Meeusen Company C.P.A. PLLC".

Calvin Meeusen Company, C.P.A., PLLC
June 15, 2004

VILLAGE OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ending March 31, 2004

SUMMARY OF AUDIT RESULTS

1. The Auditor's report expresses an unqualified opinion on the general purpose financial statements of the Village of Hesperia, Michigan.
2. Two reportable conditions were disclosed during the audit of the general purpose financial statements and is reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. These conditions are not reported as material weaknesses.
3. No instances of noncompliance material to the general purpose financial statements of the Village of Hesperia, Michigan, were disclosed during the audit.

FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

04-1. Enterprise Billing System

Condition: The computerized billing system in place at the Village has been installed only since February, 2004 and is still in a transitional phase. The monthly/quarterly reconciliation reports were not done after October, 2003. A year end reconciliation was only partially successful.

Criteria: Procedures should be in place to review the information and reconcile the reports generated by the system for reasonableness.

Effect: The failure to reconcile these billing reports could hamper the efforts of the Village staff to detect errors in the billing process on a timely basis.

Recommendation: Management or qualified staff should perform the monthly reconciliations from the beginning of the current fiscal year to the present, and then continue on an ongoing basis. This should enable the Village to discover and investigate any unreasonable variances that may arise, in a timely manner. The water and sewer billings should be closely reviewed by qualified Village and DPW staff prior to mailing, for accuracy and completeness.

Response: Management concurs with the recommendations. This is being done currently, or will be done, and will continue in the future.

VILLAGE OF HESPERIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

March 31, 2004

FINDINGS - FINANCIAL STATEMENT AUDIT-CONTINUED

04-2 Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel.

Criteria: Accounting functions should be delegated to different personnel in such a way that one can consistently act as a "check" on another.

Effect: The integrity of the accounting records could be compromised.

Cause: Virtually all of the important accounting functions are done by only one full time person and two part-time persons. The Village of Hesperia has traditionally operated very "lean" in the accounting area. The relatively small size of the Village does not justify the hiring of additional accountants.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Response: Management concurs with the recommendation. This has been done in the past and will continue in the future.

QUESTIONED COSTS

There were no questioned costs.

VILLAGE OF HESPERIA

Corrective Action Plan
June 15, 2004

United States Department of Agriculture
Rural Development Division

Village of Hesperia, Michigan, respectfully submits the following summary schedule of audit findings for the year ended March 31, 2004.

Name and address of independent public accounting firm:
Calvin Meeusen Company, C.P.A., PLLC
1014 S. Beacon Blvd.
Grand Haven, MI 49417

Audit period: April 1, 2003 to March 31, 2004.

The findings from the March 31, 2004 findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the prior schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

Reportable Conditions

04-1 Enterprise Billing System

Recommendation: Management or qualified staff should perform the monthly reconciliations from the beginning of the current fiscal year to the present, and then continue on an ongoing basis. This should enable the Village to discover and investigate any unreasonable variances that may arise, in a timely manner. The water and sewer billings should be closely reviewed by qualified Village and DPW staff prior to mailing, for accuracy and completeness.

Action Taken: Management concurs with the recommendations. This is being done currently, or will be done, and will continue in the future.

04-2 Cash Receipts and Cash Disbursements

Condition: Controls over cash receipts and disbursements are inadequate because of the lack of segregation of duties due to limited numbers of accounting personnel.

Recommendation: Management should review the cash receipts and disbursements for reasonableness and completeness on a regular basis. Cash disbursements over a prescribed dollar amount should be reviewed by the Village Council.

Action taken: Management concurs with the recommendation. This has been done in the past and will continue in the future. However, the condition is inherent. A practical remedy is not feasible.

VILLAGE OF HESPERIA

Corrective Action Plan-Continued
June 15, 2004

If the Department of Agriculture, Rural Development Division has questions regarding this plan,
please call Faye Ohrling at (231) 854-6205.

Sincerely yours,

Faye Ohrling, Clerk
Village of Hesperia, MI

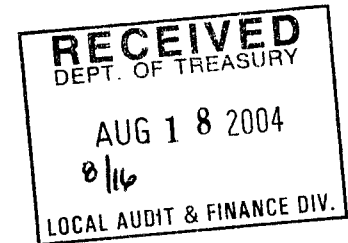
CALVIN MEEUSEN COMPANY, C.P.A., PLLC

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June 15, 2004



Honorable Village Council
Village of Hesperia
Hesperia, Michigan

In connection with my examination of the financial statements as of March 31, 2004, I have reviewed the accounting policies and procedures employed by the Village and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Village of Hesperia for the year ended March 31, 2004, and have issued my report thereon dated June 15, 2004. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Village of Hesperia to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Village of Hesperia is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the Village taken as a whole. However, my study and evaluation disclosed that the internal accounting controls may not be adequate to reduce to a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the Village of Hesperia may occur and not be detected within a timely period by Village personnel in the normal course of their duties. This is because of a lack of segregation of duties due to the limited number of accounting personnel. Accordingly, substantive testing has been increased to mitigate this situation.

A budget is required by the State Constitution and by State Statutes and is the only basis for spending. A local unit cannot overspend its adopted budget unless a change in the budget is approved by the Council. Any amendment to the adopted budget should be made no later than the last day of the fiscal year and any transfer of monies between funds, except those authorized by statute, should be held to an absolute minimum and should be authorized by resolution of the Village and recorded in the Council minutes.

Water and Sewer Funds - It appears that significant progress has been made in eliminating past problems in billing errors and the timeliness of their corrections. The billing registers are being reviewed by the Clerk and DPW Supervisor prior to mailing. A part time billing clerk has been hired to maintain the records associated with the billing and collection process. A new billing software package was put into place in February of 2004 and appears to be working satisfactorily. The billing cycle was changed from quarterly to monthly, commencing in February, 2004 and this should improve the Village's cash flow and ability to properly maintain and update the billing records. The Village Council should consider increasing the hours of the billing clerk, perhaps even to that of full-time status. It is important that the Village keep a firm grip on proper and timely billing practices to ensure optimal revenue and customer service.

Quarterly reconciliation worksheets, as recommended in the prior year, were performed for the first three billing cycles with satisfactory results. The last quarterly reconciliation, along with monthly reconciliations for the last two months of the fiscal year were not done. This was primarily due to the time pressures of implementing the new billing system and the hiring of a billing clerk. I recommend that these monthly reconciliation reports be completed, from April 2004 to present and then continue to be done monthly in a timely manner.

Accounting Software - The Village's current accounting system is entirely manual, with the exception of water and sewer billing. I recommend that the Clerk research some options for a integrated general ledger accounting software package. The manual system appears to be adequate at this time. I believe that a computerized accounting system could accomplish its purpose much more efficiently and provide better documentation.

Payroll Reporting - The Village should consider the contracting of an outside payroll service to perform all functions of payroll - paychecks, quarterly reporting and W-2 preparation. This is now being done in-house and is a time consuming process. This can be done efficiently and in a very cost effective manner by a payroll service to free up Village staff time.

Due to/Due From's - Interfund borrowing continues to grow, albeit at a somewhat slower pace than in past years. In the last three years, no fund has repaid another fund for its borrowings. In the past year, overall due to other funds accounts have increased from \$214,260 to \$240,907, an increase of over 12%.

Interfund loans are sometimes necessary but they are intended to solve short-term cash flow problems and not become long-term loans. If the implementation of a plan to start repaying

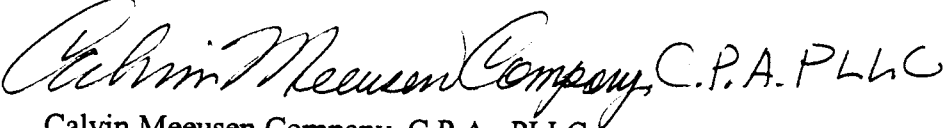
these interfund loans is not practical, then the Village Council should consider a plan to have the funds forgive the debts of another, where legally permissible. Amounts owed to Major and Local Streets Funds must actually be repaid and the Village should take the necessary steps to do this as soon as possible.

GASB 34 - The Village became subject to this accounting pronouncement as a phase three implementor as of April 1, 2004 for the fiscal year ending March 31, 2005. This will result in major changes in the appearance and content of next years audit report. We will be working closely with the Village staff over the coming year on implementation and compliance issues associated with GASB 34.

General fixed assets and new infrastructure are required to be capitalized, and depreciated, on the enhanced entity-wide financial statements that are a key component of the GASB 34 changes. I recommend that the Village adopt a minimum capitalization policy retroactive to April 1, 2004 of at least \$2,000 per asset.

In conclusion, I wish to say that my staff and I are very appreciative of the courtesy and assistance extended to us during the engagement. The above comments and recommendations are intended to be only of a constructive nature. I am sure they will help you to improve your accounting system and financial operation. I will be available to meet with you at any time in order to discuss these comments and recommendations.

Respectfully submitted,


Calvin Meeusen Company, C.P.A., PLLC